

APPENDIX III
PHYSICAL INVENTORY TECHNIQUES
for
MATERIALS AND SUPPLIES STOREROOMS
(Including Procedures and Controls)

The primary reason for conducting periodic physical inventories is to insure accuracy of the inventory records and to account for stock items. Property officers, agency buyers and others responsible for keeping users supplied with their inventory needs should use the physical inventory data to correct any inaccuracies that may have occurred in the intervals between physical inventories.

Responsibility for conducting a physical inventory usually falls upon the agency buyer or property officer who should be sure that sound techniques are used to get the greatest benefits from the substantial costs incurred in such inventory-taking. As with any other task, the end results depend principally upon the effort put into preparation. Preparation for physical inventory involves four phases:

1. Housekeeping - Getting materials arranged and located properly so that they can be easily inventoried. Make sure that every item is stored in its proper normal location, and only in that location. All paperwork should be up to date before starting the inventory.
2. Identification - The quality of the inventory depends on the accuracy of commodity identification. All identification work should be completed prior to starting the inventory. Storage locations (bins, shelves, pallet areas, etc.) as well as the commodities should be clearly labeled with the commodity identification.
3. Instruction - Making sure that everyone involved in the inventory knows what to do, which items are to be inventoried and which are not, and the control disciplines that must be observed.
4. Training - Actual "hands-on" training in counting and checking must be given to those people who will do the counting. Every counter and checker should participate in practice counts. Since physical inventory is usually taken on a yearly basis, even experienced personnel need to have their memories refreshed.

In taking the inventory, four basic steps are usually involved:

1. Provide lists of items to be inventoried in each storeroom. Computerized inventory systems should provide the ability to produce such lists with space to write in item counts. Manual systems can rely on hand written lists or counting tickets.

2. Count the items and record the count on the listing or ticket. Mark the storage locations in a predetermined manner to indicate that counting has been completed for each area.
3. Verify the counts either by recounting (second count) or by sampling.
4. After appropriate investigation and approval, adjust the inventory records for differences between record and physical quantities and dollars. Auditing recounts should be made for significant discrepancies.

Agencies cannot take a passive approach to the annual physical inventory.

1. Accountable Officers and Property Officers should be active in organizing the inventory and supervising its taking.
2. They should also be available to answer questions on procedure or identification during the actual inventory.
3. Auditing teams should be available so that, as inventories are reported and posted against the records, obvious discrepancies can be checked immediately before storeroom activity is resumed and recounts made impossible.

Some general pointers that will help make a successful annual physical inventory are:

1. In choosing teams to conduct an inventory, one individual should be able to identify materials in order to correct misidentified items in the storeroom.
2. Serially numbered inventory identification tags or lists provide a method of ensuring that all items counted have been accounted for in the records.
3. **The most important concern in reconciling inventory records with the physical inventory data is the establishment of cutoff dates, so that paperwork in the system is accounted for properly. Accountings for all outstanding paperwork such as, requisitions, receiving reports, adjustments, etc., is just as important as the physical inventory of the parts. Input and output papers should be posted properly to inventory records so that a valid comparison of record balances and physical counts is possible. Except in emergencies, all storeroom operations should be suspended during the physical inventory. If at all possible, all paperwork should be up to date before starting the physical inventory.**
4. Inventory records should be posted and verified during the inventory if possible, and always before physical inventory information is passed on

To accounting. This permits rechecking physical counts and clearing up other questions immediately, so that the inventory data is purified and storeroom activity can be resumed based on accurate records.

One of the most helpful techniques to improve physical inventory-taking is a post inventory review. This is usually the time when people are least inclined to even think about physical inventory, but is also the time when problems that occurred during physical inventory-taking are freshest in mind. If the people most directly involved are assembled in a postmortem briefing, problems can be reviewed and specific program revisions can be developed to improve procedures for future physical inventories. This is also the time to review inventory usage and determine which items should be written off the inventory records.